NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: September 2009 **LETTER NO.:** 09-CU-18

TO: Federally Insured Credit Unions

SUBJ: Credit Union Financial Trends for the First Half of 2009

ENCL: Financial Trends in Federally Insured Credit Unions
January 1 – June 30, 2009

Dear Board of Directors:

Enclosed is a report highlighting credit union financial trends for the first six months of 2009. The analysis is based on data compiled from the quarterly call reports submitted by all federally insured credit unions.

The credit union industry remains sound; however, the effect on the financial industry from the current economic environment continues to have a negative impact on credit union trends. Delinquency and net charge-offs continue to increase, especially in the real estate sector, indicating continued elevated concerns in the credit quality of loan portfolios. The credit quality of loans will remain an ongoing concern due to the weakened real estate market. The normal influx of share growth was also noted in the first half of 2009.

The loan growth in the first six months of 2009 continued to be from the real estate sector with the primary funding sources being higher cost share accounts and borrowed funds. This has been a consistent trend over the last several years and raises concern over the potential level of interest rate risk and liquidity risk should market rates rise. However, the industry is reporting a significant increase in the amount of first mortgage loans sold during the first half of 2009, which is a positive change in balance sheet risk management.

Given the current issues within the mortgage and credit markets, credit unions originating real estate loans are encouraged to remain vigilant and enforce sound underwriting practices. Credit unions with higher levels of credit, liquidity, or interest rate risk must maintain diligent risk management practices.

Sound Asset-Liability Management practices are extremely important given the uncertainty that exists related to future interest rates and economic stability. Even with the Treasury intervention to help stabilize the financial marketplace, the residual impact on interest rates and the economy in the future is unknown. Sound business planning includes maintaining flexibility in the balance sheet structure to sustain financial stability during periods of economic uncertainty.

NCUA began collecting data on loan modifications in December 2008 with the current reported amount of outstanding real estate loan modifications exceeding $3.5 billion. Loan modifications provide a mechanism to help manage the current elevated levels of credit risk, but must be done with sound underwriting criteria and comprehensive policies and procedures. NCUA will be issuing national guidance on this topic in the coming weeks. This remains an area of emphasis for our examination staff as poor underwriting criteria and inadequate policies could lead to delay in timely collection action and underreporting of delinquency and loan losses.

Thank you for your cooperation in submitting your financial and statistical data in a timely manner.

Sincerely,

/s/

Deborah Matz
Chairman